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ACTION EUR-12

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E.O. 11652: GDS

TAGS: PFOR, EFIN, ECON, ENRG, NATO

SUBJECT: NAC MINISTERIAL: ECONOMIC ISSUES

REF: STATE 236928

1. SPC AND ECONADS HELD JOINT MEETING NOVEMBER 18 TO CONSIDER SUGGESTED OUTLINE OF IMPLICATIONS FOR THE ALLIANCE OF RECENT ECONOMIC DEVELOPMENTS. ECONADS HAD WORKED OUT THIS OUTLINE ON NOVEMBER 15. (TEXT OF THE OUTLINE APPEARS AT THE END OF THIS MESSAGE.) SPC CHAIRMAN (KASTL) INTRODUCED THE OUTLINE AS A LIST OF QUESTIONS WHICH SYG LUNS WOULD MENTION IN INTRODUCTORY REMARKS ON THIS TOPIC AT THE MINISTERIAL. HE STATED THAT THE LAST SENTENCE OF THE OUTLINE WOULD NOT APPLY, SINCE SPC AND ECONADS WERE NOT REPEAT NOT PREPARING AN ANALYSIS FOR FOREIGN MINISTERS.

2. ITALIAN REP (SPINELLI) INQUIRED IF ALLIED CONSENSUS WAS TO DISCUSS THIS QUESTION AT THE RESTRICTED SESSION. KASTL REPLIED THIS WAS THE CONSENSUS WHICH EMERGED FROM THE NOVEMBER 7 MEETING OF THE NAC AND SENIOR POLADS. FRENCH REP (CARRAUD) INQUIRED IF MINISTERS WOULD THEREFORE DISCUSS DETENTE UNDER THE REGULAR AGENDA. KASTL REPLIED THAT NAC WOULD ADDRESS THIS

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QUESTION.

3. ITALIAN REP SAID HIS AUTHORITIES HOPE THE DISCUSSION AT THE MINISTERIAL WILL FOCUS ON THE IMPLICATIONS OF THE ECONOMIC

SITUATION ON DEFENSE AND ON THE BALANCE OF POWER BETWEEN EAST AND WEST (ISSUES 3A AND 3 D IN TEXT AT END OF THIS MESSAGE). DUTCH REP (BUWELDA) SAID NETHERLANDS' VIEWPOINT WAS SIMILAR TO THAT OF ITALY. HIS AUTHORITIES WOULD ALSO CONSIDER A USEFUL QUESTION TO BE ISSUE 3 E, ON EAST/WEST ECONOMIC RELATIONS. HOWEVER, THE DUTCH AUTHORITIES THINK IT MAY BE PREMATURE TO DISCUSS THE IMPLICATIONS OF THE CONOMIC SITUATION ON THE INTERNAL POLITICAL AND SOCIAL STABILITY OF MEMBER COUNTRIES (ISSUE 3B).

4. TURKISH REP (TULUMEN) ASKED IF MINISTERS WOULD DISCUSS HOW TO FIND REMEDIES TO THE PROBLEMS. KASTL SAID HIS IMPRESSION WAS THAT MINISTERS WOULD EXCHANGE VIEWS, WITHOUT SEEKING SOLUTIONS FOR ECONOMIC ISSUES WHICH ARE PROPERLY IN OTHER INTERNATIONAL FORA. MINISTERS NEED TO KEEP ALL FACTORS IN MIND, INCLUDING POLITICAL IMPLICATIONS OF THE ECONOMIC SITUATION. TURKISH REP REPLIED THAT SIMPLE EXCHANGE OF VIEWS WOULD SOLVE NOTHING, AND THAT THE ALLIES NEED MORE THAN THAT. HE REFERRED TO CHANCELLOR SCHMIDT'S WARNING CONCERNING ECONOMIC ISSUES AT THE NATO SUMMIT.

T. KASTL SAID THAT SCHMIDT MADE CLEAR AT THE SUMMIT THAT NATO WAS NOT THE FORUM FOR SEEKING SOLUTIONS TO ECONOMIC ISSUES, BUT RATHER THAT ECONOMIC ISSUES ARE A FACTOR WHICH NATO FOREIGN MINISTERS NEED TO KEEP IN MIND. FRG REP (BOSS) AGREED. HE SAID SCHMIDT WANTED TO ENCOURAGE HIS COLLEAGUES TO THINK CONSTANTLY ABOUT THESE ISSUES. KASTL REFERRED TO THE 1957 REPORT OF THE THREE WISE MEN, WHICH HELD THAT NATO SHOULD EXCHANGE VIEWS ON ECONOMIC ISSUES WHILE SEEKING SOLUTIONS IN OTHER FORA. TURKISH REP SAID SOME MINISTERS MIGHT EXPRESS VIEWS ON SOLUTIONS OF THE PROBLEMS. HE HOPED FOR SOMETHING MORE SUBSTANTIAL THAN A SIMPLE EXCHANGE OF VIEWS. HE STATED "SOME ECONOMIC PROBLEMS ARE DISCUSSED AMONG THE NINE, BUT WE ARE 15." KASTL SAID THAT, OF COURSE, FOREIGN MINISTERS COULD SAY WHAT PLANS THEY HAVE, AND WHAT SOLUTIONS THEY HAVE IN MIND. HE CALLED TULUMEN'S REMARKS A WELCOME INVITATION FOR THE FOREIGN MINISTERS TO ENGAGE IN A LIVELY DISCUSSION.

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6. U.S. REP (PEREZ), DRAWING ON REFTTEL, NOTED THAT U.S. HOPED FOR A BROAD DISCUSSION OF THE POLITICAL IMPLICATIONS FOR THE ALLIES OF THE ECONOMIC SITUATION, WITH EMPHASIS ON THE CONSEQUENCES FOR THE WESTERN DEFENSE POSTURE.

7. NO SPC MEMBER OBJECTED TO THE FOLLOWING OUTLINE, WHICH SYG LUNS WILL USE IN INTRODUCING THIS TOPIC DURING THE RESTRICTED SESSION AT THE DECEMBER MINISTERIAL:

BEGIN TEXT

SUGGESTED OUTLINE OF THE IMPLICATIONS FOR THE ALLIANCE OF RECENT ECONOMIC DEVELOPMENTS THAT MIGHT BE RAISED AT THE

DECEMBER MINISTERIAL MEETING

IN THE COURSE OF THE SIX MONTHS SINCE THE LAST MINISTERIAL MEETING IN OTTAWA THE SERIOUS DETERIORATION IN THE ECONOMIC SITUATION AND OUTLOOK IN THE ALLIED COUNTRIES IS NOW BEGINNING TO AFFECT PRACTICALLY ALL THE QUESTIONS WHICH ARE OF DIRECT CONCERN TO THE ALLIANCE.

2. FOUR MAJOR FACTORS MAY BE CONSIDERED:

- (A) EXCESSIVELY HIGH INFLATION;
- (B) INCREASING DIFFICULTIES IN THE SUPPLY OF RAW MATERIALS AND FUEL AS A RESULT OF SCARCITY AND/OR PRICES;
- (C) NEW BALANCE OF TRADE AND PAYMENTS PROBLEMS;
- (D) RISING UNEMPLOYMENT AND SLOWDOWN OF ECONOMIC ACTIVITIES.

3. EACH OF THESE ISSUES HAS A DIRECT BEARING ON:

- (A) THE DEFENCE EFFORT OF THE ALLIED COUNTRIES;
- (B) THE INTERNAL POLITICAL AND SOCIAL STABILITY OF MEMBER COUNTRIES;

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- (C) THE SOLIDARITY AMONG ALLIES;
- (D) THE BALANCE OF POWER BETWEEN EAST AND WEST (GROWING ECONOMIC STRENGTH OF THE SOVIET UNION AS COMPARED WITH THE WESTERN SLOWDOWN) AND OUR BARGAINING POSITION VIS-A-VIS THE EAST;
- (E) THE EAST/WEST ECONOMIC RELATIONS;

THE EFFECT OF WHICH COULD BE BRIEFLY ANALYSED.

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